

One-on-One

BY MICHAEL FICKES

# Leland Speed

FULL SPEED AHEAD

ABOUT 50 YEARS AGO, LELAND SPEED, A SELF-described "good ole boy" from Jackson, Miss., left to attend Harvard University. He came back with a graduate degree from the business school and set to work in his dad's securities firm. On the side, he dabbled in real estate. He took to the business and started building REITs in 1978.

Today, Speed chairs **Parkway Properties, Inc.** (NYSE: PKY), an office REIT with 2002 revenues of \$156 million, and **EastGroup Properties, Inc.** (NYSE: EGP), an industrial REIT with 2002 revenues of \$106 million.

According to Smith Barney, Parkway's compound annual return since 1994 has been 23.5 percent, the highest in the REIT industry. In the industrial sector, EastGroup has outperformed its competitors for eight of the last nine years.

Speed recently talked to *Real Estate Portfolio* about the real estate industry and his prolific career.

**Portfolio:** You started out in the securities business but moved into real estate. Why?

**Speed:** I always liked real estate. When mortgage REITs began to grow in the early 1970s, they didn't make any sense. They would raise \$25 million in equity, borrow \$50 million, and make \$75 million in bad loans. It was an industry heading toward a train wreck. I thought it was an opportunity and went into it full time.

**Portfolio:** The story is that you got into the business through a hostile takeover.

**Speed:** Through the early 1980s, we acquired 12 REITs, all "unfriendly." It worked this way: I looked for REITs with a big, proud sponsor who was embarrassed to hell and back by the REIT's business results. I would become the largest shareholder, ask for a seat on the board, and get to

know everyone. After building up a level of trust, we would acquire control, pack up, and move everything to Jackson, Miss.

**Portfolio:** These were all mortgage REITs?

**Speed:** Yes. They were real estate banks making loans (traditional) banks wouldn't make. In the early days, we were workout people, salvaging value from bad loans. In the '80s, we started dealing with syndicators, who were selling tax shelters to every dentist in America. That worked for a while, and in the '80s, our assets increased to about \$250 million.

**Portfolio:** When did you convert to the equity REIT business?

**Speed:** In the early 1990s, **Kimco Realty Corporation** (NYSE: KIM) went public and proved that equity REITs worked. That was the future, so we converted. We used our foreclosed mortgages as seed capital and created Parkway to own office buildings and EastGroup to own industrial real estate.

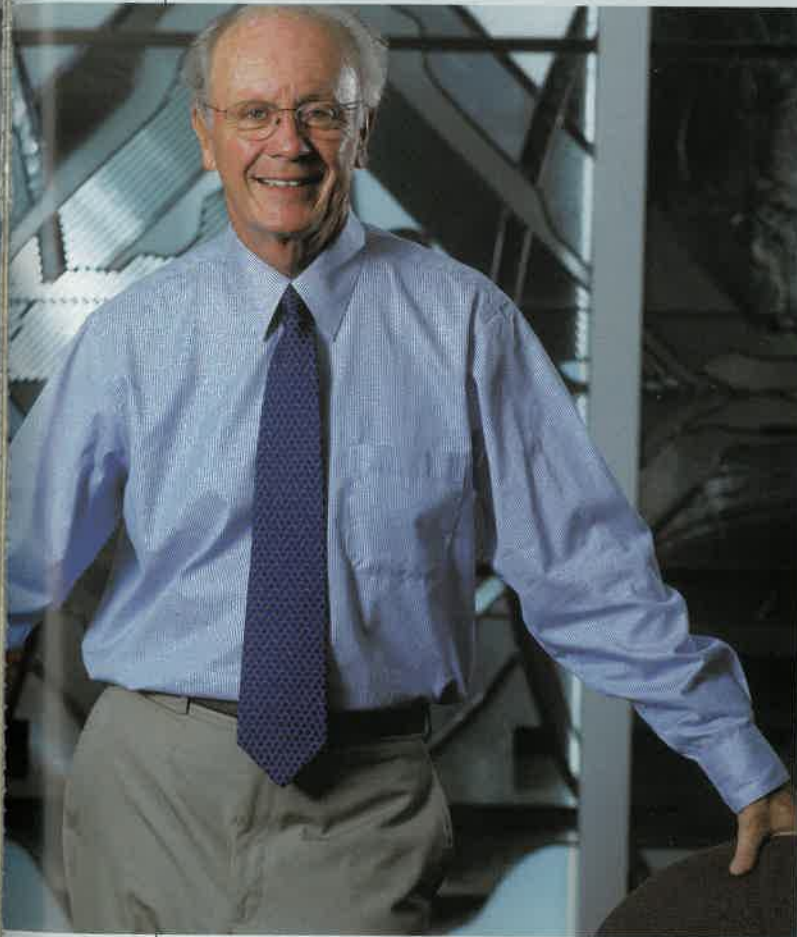
**Portfolio:** Both Parkway and EastGroup have outperformed competitors in recent years. How do you explain that?

**Speed:** We buy at the right price. During the pie-eating contest of the late 1990s, other companies were bulking up on properties and paying a lot more than we were willing to pay. We once looked at a portfolio offered for \$111 million. We bid \$83 million and lost out to someone who paid \$111 million and isn't performing well right now.

**Portfolio:** But how have the companies continued to outperform even in the recent downturn?

**Speed:** The magic dust is operations. Our industry is filled with “deal jockeys.” Everyone wants to buy, sell or develop. That’s what makes the noise. We think the risk-reward ratio on building an office property is frankly too high. In our organization, you earn your merit badges for serving customers—tenants.

Service shows up in our results. Take Atlanta; that market is 17 percent vacant today. We’re 93 percent leased. In Phoenix, we’re 98 percent leased, but the city is 20 percent vacant. In Houston, we’re way up in the 90 percent leased



range, but the city is 18 percent vacant. Overall, our occupancy rates have fallen only 2.5 percent from 94.6 percent in 2000 to 92.1 percent today. Yet, office vacancies across the country are averaging more than 16 percent. So you have to get in at the right cost, and you have to operate. It isn’t higher math.

**Portfolio:** Landlords always talk about service. What do you do that’s different?

**Speed:** We do lots of little things to make sure our customers are happy. When we take a building, we put flags everywhere: U.S. Flags, state flags and company flags.

Everyone loves flowers, so we put flowers everywhere as well. We commission artists and display their work in our buildings. We have customer appreciation breakfasts. You come into the lobby of your building one morning and find guys in tuxes behind long tables with fruit and pastries. They hand you a plate and say, “we appreciate your business.”

**Portfolio:** What do you like to do outside of the real estate business?

**Speed:** On the do-good side, I’m chairman of the development board at Jackson State University. I’m also chairman of Jackson’s downtown development program, and incoming chairman of Habitat for Humanity in Jackson.

**Portfolio:** You are very active in Jackson and throughout Mississippi. Several NYSE-listed companies used to be based in Mississippi, but now only a few remain. How do you feel about the loss of those larger corporations?

**Speed:** Consolidation is a sign of the times. I served as a director for several companies that have been acquired. ChemFirst, for example, was bought by DuPont. SkyTel was acquired by WorldCom, which then imploded. All this has taken a toll on large companies domiciled here. Fortunately, we have a very entrepreneurial environment in Jackson, and I think you’ll see new companies going public. I can think of two candidates right now.

**Portfolio:** What do you do to relax?

**Speed:** I like to snow ski, which is an oddball thing for an ole boy from Mississippi.

**Portfolio:** It’s also a demanding sport for someone who is 70 years old.

**Speed:** I’m in good shape. I work out with a personal trainer every morning starting at 5:45 a.m. I lift weights three times a week and get aerobic exercise for at least 30 minutes five times a week.

**Portfolio:** That’s quite a workout, but how do you relax?

**Speed:** I’m trying to be a golfer. I have a 26 handicap and love the game. I just got back from Scotland, where I played at St. Andrews, Carnoustie, Muirfield and Gleneagles golf courses.

**Portfolio:** How did you become interested in golf?

**Speed:** We inherited a loan that defaulted on a golf development in Highlands, N.C. We couldn’t sell it to anyone, so we redeveloped it. I liked the place and started playing golf. In fact, I’m heading up there tomorrow.

**Portfolio:** Do you plan to relax when you get there?

**Speed:** Maybe. ♦